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WORLD ECONOMIC GROWTH LIKELY TO SLIDE TO ZERO IN 1991 BUT SLOW RECOVERY SEEN FOR NEXT YEAR; EASTERN EUROPE AND USSR IN SHARP ECONOMIC DECLINE

Gulf Crisis Has Heavy Regional Impact But Minor Global Effect

World economic growth slowed down in 1990, the second consecutive year of decreasing economic growth, according to the United Nations *World Economic Survey 1991*, released today*. The mere 1 per cent growth in 1990 even fell behind world population growth. The world economy is not likely to grow at all in 1991. World output is expected to rebound by a modest 2 per cent next year, which will only halt the decline in world output per person recorded in 1990 and 1991.

In Eastern Europe and the Soviet Union as a whole, the *Survey* finds, economic output declined by 6 per cent in 1990. The decline will be even sharper this year, reaching 10 per cent.

The Persian Gulf crisis seriously affected the economies of Iraq, Kuwait and at least a dozen other developing countries, but the *Survey* views its impact on the world economy as smaller than had been feared.

In the developing world, the growth rate slowed for the third year in a row, to around 3 per cent. In Latin America and the Caribbean, output actually fell. Population growth still outpaces economic growth in sub-Saharan Africa (excluding Nigeria).

Primary commodity prices, other than for oil, reached their lowest level since the 1930s, measured in terms of their ability to purchase manufactured exports of industrialized countries.

The outlook for development finance remains bleak, the *Survey* reports. Financial resources still flow out of developing countries, particularly in Latin America, to developed countries. The protracted debt crisis continues to drain savings that might otherwise be used to raise investment and promote growth in the affected countries.

The volume of world trade grew 4 per cent in 1990, down from 7 per cent in 1989, reflecting the slow-down in the growth of world output. However, it was the sixth consecutive year in which the increase in world trade exceeded the growth of world output. Trade remains, the *Survey* states, one of the most dynamic forces in the world economy.

The impact of the Gulf crisis on the energy market was short-lived, the *Survey* concludes. World crude oil production in 1990 rose to 60.3 million barrels per day—the highest level since 1979. Increased demand for oil from the member countries of the Organization of Petroleum Exporting Countries (OPEC) may result in a tightening of the oil market in the future.

The *Survey* calls on the industrialized countries to stimulate economic growth. A growth rate 1 per cent

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* World Economic Survey 1991, *published by the United Nations Department of International Economic and Social Affairs (document E/1991/75 in Arabic, Chinese, English, French, Russian and Spanish; or Sales No. E.91.II.C.1 in English, French and Spanish, available for $55 from United Nations Publications, Room DC2-853, New York, NY 10017, USA, or United Nations Publications, Palais des Nations, CH-1211, Geneva 10, Switzerland). An abridged version, World Economic Survey: A Reader, will also be available for $17.95 on 1 September 1991 (Sales No. E.91.II.C.2, English only).*

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higher than currently projected would help meet their own social problems as well as the needs of international development, reconstruction in Eastern Europe and the protection of the environment.

WORLD ECONOMIC GROWTH CONTINUES TO DECLINE IN 1990 . . .

The growth of world output slowed in 1990 to about 1 per cent (see table 1). It was the second consecutive year of decline, down from 3 per cent in 1989 and 4.3 per cent in 1988. The slow-down was particularly sharp in the second half of 1990, further worsening forecasts for 1991.

In all major country groups, output in 1990 increased more slowly than before or declined absolutely. Among the major economies, the slow-down was most pronounced in Canada, the United Kingdom and the United States. But Germany and Japan grew faster than in 1989.

The growth of the developed market economies slowed in 1990 by one percentage point, to 2.4 per cent. Most of that growth occurred in the beginning of the year. By the fourth quarter, the aggregate output of the seven major developed economies was falling for the first time since 1982.

By the end of 1990, almost all major economies were in or near recession. But their paths differed, imparting a degree of stability to the world economy. While the United States was already slowing down sharply in the second half of 1989, Germany and Japan were growing vigorously, and did not show any sign of slow-down till late 1990.

Eastern Europe and the USSR saw the worst drop in economic activity since the period of stabilization which took place immediately after the Second World War. The Soviet Union experienced a 4 per cent fall in output for 1990, but the rate of decline was accelerating by the end of the year. The economies of Eastern Europe as a whole contracted by 11 per cent.

In the developing world, the growth rate slowed for the third year in a row, to around 3 per cent, compared with 3.4 per cent in 1989 and 5 per cent in 1988. Oil-importing developing countries had to confront a major terms-of-trade decline of 6 per cent.

In Latin America, output contracted by about 0.7 per cent in 1990, the third consecutive year of decline in per capita gross domestic product (GDP). Much of the decline was due to the contraction in Argentina and Brazil, but growth slowed down in most economies, due in part to stabilization policies and in part to the slow-down in North America.

In Africa, the growth rate improved somewhat, but barely enough to keep per capita output from falling. Output in 1990 grew at an estimated 3.4 per cent, just above population growth and not much different from 1989. In sub-Saharan Africa (excluding Nigeria) output increased by around 2 per cent.

In West Asia, the Gulf crisis had a catastrophic economic impact on Iraq, Kuwait and Jordan. In other countries, oil output expanded rapidly, and helped them achieve high GDP growth. But the region's aggregate GDP remained unchanged in 1990.

In South and East Asia, the pace of growth remained high in 1990, at just above 6 per cent, after a sharp deceleration in 1989. This improved performance can be largely ascribed to the Republic of Korea and Malaysia, but other countries also improved their performance. Country growth rate varied between 2.5 and nearly 10 per cent. The region was negatively affected by the Gulf crisis, but despite this, and despite some deceleration in the growth of exports, it remained the world's fastest-growing region.

The volume of world merchandise trade grew roughly 4 per cent in 1990—a significant slow-down from the 8.4 and 6.8 per cent recorded in 1988 and 1989. Yet this expansion marked the sixth consecutive year in which the increase in world trade exceeded the growth of world output, so that trade could again be seen as one of the most dynamic elements in the world economy.

. . . AND ZERO GROWTH IS EXPECTED FOR 1991

The end of the Gulf war early in 1991 lessened some uncertainties on the short-term prospects of the world economy. Consumer and business confidence appeared to be returning, at least in some developed market economies.

Yet many uncertainties remain: political instability in the Middle East and elsewhere; the speed and direction of the transition in Eastern Europe and the Soviet

Union; the course of interest rates; and the outcome of the Uruguay Round of trade negotiations, held under the General Agreement on Tariffs and Trade (GATT), whose failure could lead to a dangerous surge of protectionism and to a loss of confidence in the multilateral trading system.

World output is expected to stagnate in 1991, but may grow by about 2 per cent in 1992. The volume of world trade is expected to grow less than 4 per cent in 1991, the lowest rate since 1985. As growth in world demand accelerates in 1992, world trade is likely to grow by more than 5 per cent.

In the developed market economies, growth is expected to slow further to about 1.4 per cent in 1991, down from 2.4 per cent in 1990, and to recover to 3 per cent in 1992.

In Eastern Europe and the Soviet Union, output is projected to contract by nearly 10 per cent in 1991, following a 6 per cent fall in 1990.

In South and East Asia, GDP growth is expected to be about 5.5 per cent in 1991, slightly lower than in 1990. Despite the slow-down, GDP growth will probably remain above 5 per cent in China, Indonesia, Malaysia, the Republic of Korea, Singapore, Taiwan Province of China and Thailand.

In West Asia, declines in output are foreseen in 1991 due to the Gulf crisis and its aftermath, but strong growth in the construction and oil sectors is expected to generate growth in the second half of 1991, and to result in a sharp increase in output in 1992 (averaging 7 per cent for the year).

In most of Latin America, GDP is likely to stop contracting, or to expand at a slightly faster rate, in 1991, resulting in GDP growth for the region of about 1.5 per cent. Growth in 1992 is expected to approach 3 per cent.

GDP growth in sub-Saharan Africa (excluding Nigeria) is not anticipated to exceed 3 per cent, continuing nearly a decade of declining output per capita. Nigeria is expected to grow by about 4 per cent in 1991, compared to 5 per cent in 1990.

ECONOMIC CRISIS IN EASTERN EUROPE AND THE SOVIET UNION . . .

The momentous political transformations in Eastern Europe will shape political and economic development in the region for generations to come. With the machinery of central planning dismantled and that of a market economy not yet in place, output in 1990 stagnated or, in some cases, declined sharply. Due to the relative economic seclusion of the Eastern European countries, the *Survey* concludes, the economic impact on the rest of the world was limited, except for the few countries that have been closely linked to them through the Council for Mutual Economic Assistance (CMEA).

In 1990, output decreased 11 per cent in Eastern Europe and at least 4 per cent in the Soviet Union. In Poland and Bulgaria, the recession was on the order of 13 per cent. In Romania gross output declined almost 11 per cent, in Hungary over 5 per cent and in the former German Democratic Republic (GDR) over 13 per-cent.

Endemic external-payments problems have been aggravated by the collapse of the CMEA. The replacement of transferable-rouble prices by world prices and of transferable-rouble settlements by convertible-currency payments has strained the conduct of trade.

The sharp deterioration of terms of trade with market economies and the resultant income losses created an additional burden for the Eastern European countries. Higher oil prices in the second half of 1990 and a shortage of energy supplies greatly intensified their economic difficulties.

The total gross debt of Eastern Europe (excluding the former GDR) amounted to some $153 billion in 1990. The number of announced joint foreign ventures has increased rapidly, but the volume of funds expended has remained small: total commitments amounted to perhaps $8 billion to $10 billion by late 1990.

The outlook for regaining economic growth over the next two or three years is dim. There is a very slim chance of any major change that would foster more-buoyant economic relations within Eastern Europe. Some clearing or payment mechanism, perhaps with Western financial and supervisory assistance, will be critical in overcoming trading problems associated with the transition.

Despite this pessimistic outlook, the *Survey* notes the long-term opportunities of fusing the reforming countries more fully into the global economy. Their economic recovery depends on how they will be allowed to benefit from the existing trade, finance and monetary

regimes. Increased trade with the West will depend on how quickly stability can be regained in the trade among these countries.

The inflow of foreign direct investment is likely to remain small. If the reforming economies improve their absorptive capacity, the amount of foreign investment will accelerate. That may not happen until economic stability is restored, infrastructure built or restored, and other obstacles overcome. It is therefore unlikely that major diversions of potential foreign direct investment in developing countries will occur.

. . . AND ITS IMPACT ON DEVELOPING COUNTRIES

In time, the restructuring of Eastern European economies will strongly stimulate trade with the developing countries, the *Survey* says. One source of growth of developing-country exports will come from the strengthening of those countries' competitive position, as the structures of the reforming countries are shifted to reflect underlying economic scarcities.

Another impulse will come from the abolition of the State monopoly of foreign trade, which complicated access to Eastern European markets. Among those likely to benefit will be the most dynamic market-oriented developing countries. The reforms also offer opportunities to developing countries with close ties to the East which are themselves reforming, such as Viet Nam.

On the other hand, the reforming economies may become important competitors of developing countries, particularly in Western Europe. Owing to low wage costs and proximity to Western Europe, they are bound to compete, at the lower end of technological sophistication, with the newly industrializing economies.

The potential for diversion of Western assistance to reforming countries depends on how the reforms are managed. Very quick transformation and opening up to external competition, as in the former GDR, will exacerbate the short-term costs of the transition.

Most industrialized countries have pledged not to divert to the East funds earmarked for developing countries. But many industrialized countries face budgetary stringency. Because of recession, fiscal reform and aid fatigue, the assistance budgets of several industrialized countries have come under pressure.

The overall record of Eastern Europe on assistance to developing countries compared favourably with that of most developed market economies. Their assistance was earmarked for selected developing countries and was important because it went to countries otherwise almost excluded from international aid. The reforms have brought this assistance to a near halt. Eastern European countries are now carefully scrutinizing the real cost of assistance, even to favoured countries. While before, most loans from the East were turned into grants, more recently the East has tried to have developing countries repay their debts.

IMPACT OF THE GULF CRISIS CONSIDERED MINOR

The direct impact of the Gulf crisis on global growth is difficult to separate from other influences. It erupted when the world economy was already showing signs of weakening. In many countries it increased economic difficulties, reduced growth and dimmed growth prospects. But for the world economy the immediate impact was minor, the *Survey* finds. The loss of output in Iraq, Kuwait and some other countries was large, but did not make much of a dent in world output. Nevertheless, the crisis was a grim reminder of the vulnerability of the world economy to external shocks.

Higher oil prices reduced real income in oil-importing countries, while fear of inflation led most developed market economies to maintain restrictive monetary policies in the face of weakening economic growth. But the rise in oil prices was transitory, and its short-term effect was probably to reduce the growth of world output by no more than 0.2 per cent.

In West Asia the crisis took a large toll in 1990. In Iraq, Kuwait and Jordan, output was about halved in the second half of 1990. In other countries, oil output expanded rapidly, and helped most countries achieve high real GDP growth. But this was barely enough to compensate for the loss of output elsewhere, and the region's aggregate GDP remained unchanged in 1990.

The trade embargo brought down the economy of Iraq. The embargo stopped oil exports, and production was about 75 per cent lower in the last five months of 1990 than in 1989. With the decline of the oil industry, production in other industries also fell. Iraq's GDP fell

by some 30 per cent in 1990 as a whole. The economy of Kuwait came to a virtual halt in the second half of 1990.

The Gulf crisis adversely affected the South and East Asia region. Its aggregate current account moved from surplus into deficit, and in virtually all countries higher oil prices combined with domestic factors to push up inflation. But despite the disruptions brought about by the crisis, it remained the world's fastest-growing region.

In Latin America, the Gulf crisis contributed to higher export revenues and economic growth for some countries, increased the cost of imports for most, and added to the pressure of inflation. Higher oil prices brought additional fiscal revenues to the oil-exporting countries. But of the nine countries whose output fell in 1990, all of them (except Peru) were energy importers.

Most African countries felt the impact of the Gulf crisis mainly through the increase in the cost of oil imports. In a few countries the adverse impact (interruption of trade and aid owing to the embargo, lower remittances, loss of tourism) was important. But for Africa as a whole, the embargo on Iraq and Kuwait had only a small impact.

OIL, ENERGY AND THE ENVIRONMENT

The Gulf crisis and market speculations resulted in a temporary doubling or even tripling of oil prices. For the whole of 1990, the average price was an estimated $22.20 a barrel—a 27 per cent increase over 1989.

World crude oil production in 1990 rose to 60.3 million barrels per day—the highest level since the record year of 1979. World oil demand is expected to grow by about 2 per cent a year in the 1990s. Demand for OPEC oil will possibly reach 30 million to 32 million barrels per day by the year 2000. This may result in a tightening of the oil market and another energy crisis, unless production capacity is expanded. Political stability, new investments and access to technology will be essential. International cooperation through a producer-consumer dialogue is more important than ever before.

The energy sector is among the worst environmental offenders. Regarding global warming, the most frequently cited target is reduction of fossil fuel use, which contributes 70 to 90 per cent of carbon dioxide emissions. But since fossil fuels contribute four fifths of energy supplies, a policy seeking dramatic cuts in their use would be impractical. The goal must be to seek adequate energy provision *and* environmental protection, the *Survey* states.

DEBT BURDEN PROTRACTED; $30 BILLION NET OUTFLOW FROM DEBT-CRISIS COUNTRIES IN 1990

The net transfer of resources from developing countries—the most striking aspect of international financial flows—continued in 1990. Through such transfers, developing countries have since the early 1980s been net providers of financial resources to the rest of the world, rather than recipients. In 1990 the net outflow amounted to $32 billion, excluding the major oil exporters of the Middle East. Most of the outflow was by 15 major debtor countries, whose net outflow came to $30 billion.

Statistical debt indicators of the developing countries in 1990 were not very different than they were in 1980. The debt-servicing ratio of the capital-importing developing countries was 18.6 per cent in 1980 and about 16 per cent in 1990.

The aggregate debt rose in 1990 to a new peak of $1.2 trillion. But the increase was more statistical than real. It was mainly due to the weakening of the dollar, which made a loan in a non-dollar currency translate into a larger amount of dollars. When seen as a ratio to the earnings from exports of goods and services, total debt fell slightly in 1990—the fourth year of decline in that ratio, which thus stood only 16 per cent above its 1980 value.

Some private debt was erased through repurchases by the debtor, usually at a discount under arrangements with the creditor banks. Mainly through such operations, the 15 most heavily indebted countries reduced their medium- and long-term debt to private creditors from $330 billion in 1987 to $260 billion in 1990.

"If international economic conditions allow and domestic political conditions are accommodating, highly indebted countries may carry their debt burden for another decade," says the *Survey*. "They have already done so for almost ten years, at the cost of economic stagnation and decline. What does not seem on the

horizon is a generalized ability to grow out from under the remaining debt overhang . . . Creditor Governments are aware that existing standards of debt relief have not been adequate in severely indebted countries . . . The additional flexibility that may increasingly be shown in the Paris Club is a welcome sign for the future. Debt to commercial banks, however, will probably have to be handled more and more through the market, through swaps and other schemes whereby the creditors accept the need to release the debtor from obligations that in fact cannot be met."

Certain positive signs on financial flows to developing countries have been appearing. The growth of direct investment that began in the late 1980s continued in 1990. New investment in 1990 was almost three times the low level of 1986. Some was financed by swapping developing-country debt purchased at a discount for equity stakes in firms, including State enterprises being privatized. But some was traditional direct investment, especially in Asia.

Flows of official development assistance have been stationary. Measured in constant prices and exchange rates, they have been virtually constant since 1980. Aid to sub-Saharan Africa has increased, but largely at the expense of aid to North Africa and the Middle East. Multilateral assistance rose by about 6 per cent in 1990, mainly because of the increase in credits through the International Development Association, a World Bank affiliate. But aid flows in the 1990s are not set for significant real growth.

STIMULATING ECONOMIC GROWTH

The *Survey* calls on the industrialized countries to adopt policies to stimulate economic growth. These countries now seek to reduce fiscal pressure and the public sector, and rely on monetary restraint to contain inflationary domestic demand. "Such policies have been effective in restraining inflation, but interest rates and unemployment have been high, while investment and growth have been weaker," the *Survey* notes.

In various industrialized nations, the monetary authorities feel that output growth over 2 to 3 per cent a year would be inflationary and must be restrained. As long as this view prevails, these nations cannot serve their historic role as an engine of world economic growth, the *Survey* says.

Governments have generally cut spending, detracting from demand rather than stimulating it. The present policy mix seems to express political priorities according to which unemployment is an acceptable price for containing inflation, and high real interest rates are welcomed even at the expense of growth, at least in the short term. In this case the more dynamic international economic environment needed for a shorter adjustment in the developing countries and a less costly transition in Eastern Europe and the Soviet Union will not materialize.

"If the annual rate of output growth in the [countries of the] Organization for Economic Cooperation and Development (OECD) could be raised by 1 per cent and exceed the perceived ceiling of 2 to 3 per cent without untoward consequences," the *Survey* says, "their GDP would be some $150 billion higher each year, helping to meet their own social problems as well as the needs of international development, reconstruction in Eastern Europe and the protection of the environment."

TABLE 1. GROWTH OF POPULATION AND OUTPUT, BY REGION, 1981-1992

	Population 1990 (millions)	Population growth rate (annual percentage)	Gross domestic product 1985 (billions of 1980 dollars)	Rate of change of gross domestic product (annual percentage)					
				1981-1987	1988	1989	1990[a]	1991[b]	1992[b]
World	5,292	1.8	..	2.6	4.3	3.0	1.0	0.0	2.1
Developed market economies	813	0.6	7,640	2.4	4.3	3.3	2.4	1.4	3.0
North America	276	0.8	2,866	2.8	4.4	2.5	1.0	1.0	3.1
Western Europe	358	0.2	3,467	1.8	3.8	3.4	2.7	1.2	2.3
Developed Asia	144	0.5	1,060	3.8	5.4	4.6	5.0	3.1	4.1
Eastern Europe and the Soviet Union[c]	405	0.6	..	2.7	3.7	1.4	−6.3	−9.5	−4.5
Developing countries	4,074	2.1	2,780	3.0	5.0	3.4	2.9	3.5	5.0
Western hemisphere	432	2.1	815	1.2	0.8	1.1	−0.7	1.5	3.0
Africa	606	3.1	336	1.2	2.1	3.3	3.4	3.0	3.0
West Asia	130	3.0	357	−1.6	1.1	2.4	0.0	−0.5	7.0
South and East Asia	1,686	2.2	662	5.3	8.7	6.0	6.1	5.5	6.0
China[c]	1,139	1.5	470	10.0	11.3	3.3	4.8	5.5	6.0
Mediterranean	81	1.5	141	3.2	1.4	1.0	−0.7	2.0	4.0
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Heavily indebted countries	612	2.3		1.0	1.2	1.5	−0.8	1.5	..
Sub-Saharan Africa[d]	383	3.2		1.4	3.0	2.7	1.9	3.0	..

Source: Department of International Economic and Social Affairs of the United Nations Secretariat. Data on population growth rates are those published by the Department in *World Population Prospects 1990* (United Nations publication, Sales No. E.91.XIII.4).

[a] Preliminary estimates.

[b] Forecast, based on Project LINK and Secretariat estimates. For the groups of developing countries, estimates are rounded to the nearest half percentage point. Eastern Europe and the Soviet Union excludes former German Democratic Republic, which is included in Western Europe; there is therefore a break in the series after 1990 for the developed market economies and Eastern Europe and the Soviet Union.

[c] Net material product; data for 1981-1989 are government estimates.

[d] Excluding Nigeria.